



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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June 5, 2003

Net Interest Is REAL “Waste, Fraud, and Abuse” — And It Will Soar Under Republican Policies

Dear Democratic Colleague:

The “debt tax” is the one tax that no one can repeal. After the government incurs debt, it must pay the interest. And the tax revenues that go to interest buy the taxpayer absolutely nothing — no national defense, no education, no health care, nothing at all. The debt tax means the public pays more, and gets less. When taxpayers see a large share of what they pay providing no public services in return, it feeds cynicism about government.

After debt service costs zoomed in the Reagan-Bush years of the 1980s and early 1990s, the Clinton policy of fiscal responsibility and “save Social Security first” ended the deficits, built surpluses, and moved interest costs down. By the end of the Clinton Administration, both the Congressional Budget Office (CBO) and the Administration’s Office of Management and Budget (OMB) projected that the public debt — and the resulting “debt tax” — could be eliminated entirely.

But in 2001, Republican tax cuts began to wipe out the budget surplus and drive the debt up. The House Budget Committee Democratic staff project that the government will run record deficits this year and next, accumulating to \$4.0 trillion over 2004-2013. This will drive the public debt close to \$8.0 trillion. And as night follows day, the “debt tax” will go up as well.

The accompanying chart shows that as of the beginning of 2001, the Congressional Budget Office projected that the federal government’s interest costs would fall below zero in 2009; the Bush Administration promised that, even with their aggressive tax-cut agenda, defense buildup, and prescription drug coverage for the elderly, interest spending would be nearly zero in 2011. Instead, by current staff estimates, net interest costs in 2011 will be \$368 billion — \$348 billion more than projected by the Bush Administration, and \$464 billion greater than projected by CBO. By 2013, net interest costs will soar to \$418 billion.

These staff estimates assume that the economy and interest rates follow the path set forth in the CBO forecast of early this year. A strong majority of economists believe that interest rates respond to supply and demand, so when the federal government's demand for credit increases as much as now appears likely given Republican policies, interest rates will rise. If rates rise, the increase in the "debt tax" could be far larger than projected here.

This dramatic increase in the government's debt forces higher taxes in the future, so that the federal government can avoid default. To give you a sense of magnitude, the projected \$418 billion "debt tax" for fiscal year 2013 is greater than the Bush Administration projected will be spent on either defense appropriations or non-defense appropriations in the current fiscal year (2003).

The debt being accumulated by this Administration can only mean higher taxes, fewer services, and a massive burden for our children to bear.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member

Interest Costs Balloon Under Republican Policies

